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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4934
November 8, 2012

R E S O L U T I O N

**(RES. W-4934), SONORA WATER COMPANY (SWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE (GRC),
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$84,352 OR
43.8% FOR TEST YEAR (TY) 2012.**

SUMMARY

By Advice Letter (AL) 53, filed on April 11, 2012, SWC seeks to increase its rates for water service to recover increased operating expenses and earn an adequate return on margin. For TY 2012, this Resolution grants an increase in gross annual revenues of \$84,352 or 43.8%, over current rates, which is estimated to provide a rate of margin (ROM) of 18.96%.

BACKGROUND

SWC, a Class D water utility, has requested authority under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$86,082 or 45.09% for TY 2012, over the current rates. The purpose of the rate increase is to recover increased operating expenses, primarily increased cost of purchased water, and to provide an adequate rate of return. SWC's request was based on a rate of margin of 14.43%, which is less than the 22.56% currently allowed.

The present rates became effective on February 27, 2012, by approval of AL 52, which implemented a Consumer Price Index increase. The last GRC became effective October 27, 2005 pursuant to Res. W-4566, which authorized an increase of \$22,381 or 16.6%.

SWC serves approximately 109 metered customers in Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County. The SWC system is supplied by water purchased from Tuolumne Utility District. The system has a storage tank with a capacity of 101,000 gallons. SWC's distribution system consists of 11,622 feet of two to six-inch mains.

NOTICE AND PROTEST

AL 53 was served on April 11, 2012, to adjacent utilities and persons on the general service list. Also on April 11, 2012, a notice of the proposed rate increase was mailed to each customer and to the general service list. The utility provided service and notice as required by General Order, 96-B. No letters were received.

An informal public meeting was held on May 24, 2012, at 6:30 PM at the East Sonora Conference Center. One customer attended the meeting. Division staff explained the Commission procedures, while SWC representatives cited justification for the proposed rate increase. Division staff and the SWC representatives answered questions until approximately 7:15 PM.

The customer in attendance said he agreed that the utility needed an increase in rates, but expressed concern over the impact of the requested increase on fixed income residents. In setting rates in this resolution, we have balanced the financial requirements of SWC with the rate concerns of its customers.

DISCUSSION

The Division made an independent analysis of SWC's operations. Appendix A shows SWC's and the Division's estimated summary of earnings at present and proposed rates for TY 2012 and the Division's recommended rates for TY 2012. The Division informed SWC of how the methodologies and escalation rates it used differed from those used in SWC's request. SWC is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increase and resulting rates shown in Appendix B.

The Division's estimate of SWC's operating expenses, excluding purchased water, water testing, and insurance, is based on data from years 2008-2010. For purchased water costs, the Division based its estimate on five years of purchases from 2006-2011 and applied the Tuolumne Utilities District rates, which became effective July 1, 2012. The Division contacted the Department of Public Health and determined that approximately \$22,000 being booked annually for daily water testing was no longer required. The Division excluded these costs from its estimate. The Division used current actual costs for insurance. For estimating all other expense categories the Division escalated and averaged 2008-2010 expenses using factors from the May 31, 2012 escalation memorandum from the Division of Ratepayer Advocates.

SWC based its request on a 14.43% ROM, which, given its estimate of operating expenses, resulted in a revenue requirement of \$277,000. The current recommended

rate of margin for a Class D utility is 22.56%¹. Since SWC's requested ROM is less than the allowable ROM, SWC requested that the \$277,000 revenue requirement be maintained in the event that the Division's estimate of operating expenses differed from its own, so long as the ROM did not exceed the recommended 22.56%. Division believes this approach is reasonable and has calculated an 18.96% ROM given its estimate of operating expenses. In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the ROM ratemaking as an alternate to the Return on Net Investment (rate base) method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. The Division found that using the 18.96% ROM would produce more revenue than calculated using the rate of return on rate base method. Therefore, Division recommends revenues using the 18.96% ROM.

SWC's rate structure consists of two schedules: No. 1, General Metered Service, and No. 4, Private Fire Protection Service. The rates proposed by the Division are shown in Appendix B. At the recommended rates, the increase in revenue will be \$84,352 or 43.8% for TY 2012.

At the Division's recommended rates shown in Appendix B, monthly service charge rates for a customer with the smallest meter and an average consumption of 11 Ccf (one Ccf is equal to one hundred cubic feet) will increase from \$49.49 to \$71.45, a difference of \$21.96 or 44.4%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

The utility has been filing annual reports as required. However, its annual reports have not been done in compliance with the Uniform System of Accounts (USOA) as required by D.85-04-076. The utility submitted amended annual reports, compliant with the USOA, for 2008, 2009, and 2010 concurrently with the rate case filing. However, the 2011 Annual Report was later submitted and again not in compliance. SWC should be required to file an amended 2011 Annual Report compliant with D.85-04-076 within 30 days of the effective date of this resolution.

SWC needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current Commission standards: Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

¹ This recommendation is set forth in a March 6, 2012 memorandum to the Commission entitled Rates of Return and Rates of Margin for Class C and Class D Water Utilities.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft Resolution is being mailed to the utility and those requesting service at the public meeting, and being made available for public comment on October 9, 2012. No comments were received.

FINDINGS

1. On April 11, 2012, Sonora Water Company (SWC) filed Advice Letter (AL) 53, in which it requested authority to increase its water rates by \$86,082 or 45.09% for Test Year (TY) 2012.
2. SWC properly served AL 53 and provided notice of its proposed rate increase to each of its customers and to the general service list, in accordance with General Order 96-B.
3. In reviewing SWC's request, the Commission's Division of Water and Audits (Division) conducted an independent analysis of SWC's operations.
4. The Division used five years of water purchase data from 2006-2011 and current Tuolumne Utilities District rates to arrive at its estimate of purchased water costs.
5. The Division excluded approximately \$22,000 for daily water testing from its estimate.
6. The Division used current actual costs to estimate test year insurance costs.
7. For estimating all other expense categories, the Division escalated and averaged expenses using factors from the May 31, 2012 escalation memorandum from the Division of Ratepayer Advocates.
8. The Division informed SWC of how the methodologies and escalation rates it used differed from those used in SWC's request. SWC now agrees with the Division's recommended revenue requirement.
9. Because the Division used recent years' actual expenses and the Division of Ratepayer Advocates' 2012 escalation memorandum, the Division's recommended

summary of earnings for TY 2012 (Appendix A) is reasonable and should be adopted.

10. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
11. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
12. For TY 2012, it is appropriate to grant SWC an increase in gross annual revenues of \$84,352 or 43.8%, which is estimated to provide a rate of margin of 18.96%.
13. SWC should be required to file an amended 2011 Annual Report compliant with D. 85-04-076 within 30 days of the effective date of this resolution.
14. SWC should be ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current commission standards: Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Sonora Water Company to increase its gross annual revenues by \$84,352, or 43.8%. Sonora Water Company shall file a Tier 1 advice letter within 30 days of the effective date of this resolution to implement the rate increase authorized pursuant to this Ordering Paragraph. Sonora Water Company shall submit revised rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective Schedules Nos. 1, Monthly Metered Service, and 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. Sonora Water Company is ordered to file a Tier 1 advice letter submitting an amended 2011 Annual Report compliant with Decision 85-04-076 within 30 days from the effective date of this resolution.
4. Sonora Water Company is ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current Commission standards: Title Page and Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee.

November 8, 2012

5. This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 8, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

Appendix A
Sonora Water Company

SUMMARY OF EARNINGS

Test Year 2012

Item	Utility Estimated Present Rates	Requested Rates	Branch Estimated Present Rates	Requested Rates	Recommended Rates
<u>OPERATING REVENUES</u>					
Metered Rates	\$190,918	\$277,000	\$191,904	\$274,535	\$275,921
Fire Protection	\$0	\$0	\$744	\$1,079	\$1,079
<u>Total Revenue</u>	\$190,918	\$277,000	\$192,648	\$275,614	\$277,000
<u>OPERATING EXPENSES</u>					
Purchased Water	\$156,131	\$156,131	\$156,227	\$156,227	\$156,227
Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$12,364	\$12,364	\$13,017	\$13,017	\$13,017
Materials	\$787	\$787	\$1,361	\$1,361	\$1,361
Contract Work	\$1,580	\$1,580	\$1,660	\$1,660	\$1,660
Water Testing	\$24,926	\$24,926	\$2,625	\$2,625	\$2,625
Transportation	\$1,459	\$1,459	\$1,586	\$1,586	\$1,586
Office Salaries	\$0	\$0	\$0	\$0	\$0
Management Salaries	\$15,663	\$15,663	\$15,663	\$15,663	\$15,663
Employee Benefits	\$0	\$0	\$0	\$0	\$0
Uncollectibles	\$1,016	\$1,016	\$1,117	\$1,117	\$1,117
Office Services & Rental	\$0	\$0	\$0	\$0	\$0
Office Supplies and Exp	\$10,183	\$10,183	\$11,056	\$11,056	\$11,056
Professional Services	\$4,504	\$4,504	\$4,777	\$4,777	\$4,777
Insurance	\$3,888	\$3,888	\$1,835	\$1,835	\$1,835
Regulatory Comm. Exp	\$3,056	\$3,056	\$3,269	\$3,269	\$3,269
General Expenses	\$1,479	\$1,479	\$1,603	\$1,603	\$1,603
Subtotal	\$237,036	\$237,036	\$215,796	\$215,796	\$215,796
Depreciation Expense	\$5,233	\$5,233	\$5,168	\$5,168	\$5,168
Taxes other than income	\$1,582	\$1,582	\$1,582	\$1,582	\$1,582
State Income Tax	\$800	\$2,114	\$800	\$4,691	\$4,814
Federal Income Tax	\$0	\$3,270	\$0	\$7,257	\$7,446
<u>Total Deductions</u>	\$244,650	\$249,235	\$223,346	\$234,494	\$234,806
<u>NET REVENUE</u>	-\$53,733	\$27,764	-\$30,698	\$41,120	\$42,194
<u>RATE BASE</u>					
Average Plant	\$209,323	\$209,323	\$210,650	\$210,650	\$210,650
Average Depreciation Reserve	\$15,699	\$15,699	\$36,599	\$36,599	\$36,599
<u>Net Plant</u>	\$193,624	\$193,624	\$174,051	\$174,051	\$174,051
Working Cash	\$19,753	\$19,753	\$18,115	\$18,115	\$18,115
Materials and Supplies	\$787	\$787	\$787	\$787	\$787
<u>Rate Base</u>	\$214,164	\$214,164	\$192,953	\$192,953	\$192,953
<u>Rate of Margin</u>	loss	11.39%	loss	18.48%	18.96%

(END OF APPENDIX A)

APPENDIX B
Sheet 1
Sonora Water Company

Schedule No. 1A

MONTHLY METERED SERVICE (C)
Test Year 2012

APPLICABILITY

Applicable to all water service furnished on a metered basis. (C)

TERRITORY

Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County

RATES

Quantity Rate:

For all water, per 100 cu. ft.	\$3.69	(I)
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Service Charge:

		<u>Per Meter Per Month</u>	(C)
For	5/8 x 3/4-inch meter	\$30.91	(I)
For	3/4-inch meter	\$46.36	(I)
For	1-inch meter	\$77.27	(I)
For	1-1/2 inch meter	\$154.55	(I)
For	2-inch meter	\$247.28	(I)
For	3-inch meter	\$463.64	(I)
For	4-inch meter	\$772.74	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate. (C)

(continued)

APPENDIX B
Sheet 2
Sonora Water Company

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
Test Year 2012

APPLICABILITY

Applicable to water service furnished to privately owned fire protection systems. (C)

TERRITORY

Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County.

RATE

Per Month

For each inch of diameter of service connection	\$ 8.91	(I)
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SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for the private service connection shall be four inches and the maximum diameter shall not be more than the diameter of the water main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service, does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such cost will not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and with cost paid by the applicant. Such payment shall not be subject to refund.

(END OF APPENDIX B)

APPENDIX C

SONORA WATER COMPANY

COMPARISON OF RATES

TEST YEAR 2012

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Current</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Service Charge:				
5/8 x 3/4 inch meter	\$20.78	\$30.91	\$10.13	48.7%
3/4-inch meter	\$31.17	\$46.36	\$15.19	48.7%
1-inch meter	\$51.95	\$77.27	\$25.32	48.7%
1-1/2 inch meter	\$103.91	\$154.55	\$50.64	48.7%
2-inch meter	\$166.25	\$247.28	\$81.02	48.7%
3-inch meter	\$311.73	\$463.64	\$151.92	48.7%
4-inch meter	\$519.55	\$772.74	\$253.19	48.7%
Quantity Charge:				
All use per 100 cubic feet	\$2.610	\$3.69	\$1.08	41.2%

A monthly bill comparison for a customer with a 5/8 x 3/4 meter is shown below:

<u>Usage 100 cu. Ft.</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Current</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
0	\$20.78	\$30.91	\$10.13	48.7%
5	\$33.83	\$49.34	\$15.51	45.8%
10	\$46.88	\$67.77	\$20.89	44.6%
11	Average \$49.49	\$71.45	\$21.96	44.4%
15	\$59.93	\$86.19	\$26.26	43.8%
20	\$72.98	\$104.62	\$31.64	43.4%
30	\$99.08	\$141.48	\$42.40	42.8%

(END OF APPENDIX C)

APPENDIX D

Sonora Water Company
ADOPTED QUANTITIES
TEST YEAR 2012

Expenses:

1. Purchased Water

Vendor	Tuolumne Utilities District	
	By Annual	
Schedule	Agreement	
Effective Date	July 1, 2012	
Number of Meter Charges	1	
Charge for 6 inch Meter	\$434.40	
First 15 Ccf per Ccf	\$1.59	
Next 35 Ccf per Ccf	\$1.71	
Over 50 Ccf	\$2.08	
Adopted Consumption	64857	Ccf

2. Water Sales

53892 Ccf

3. Number of Service Connections:

Meter Size	Average Number of Customers
5/8-inch	86
3/4-inch	0
1-inch	13
1 1/2-inch	0
2-inch	9
3-inch	1
Private Fire Protection (inches per month)	10

4. Tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$277,000	\$277,000
2.	O & M Expenses	\$215,796	\$215,796
3.	Taxes Other Than Income	\$1,582	\$1,582
4.	Depreciation	\$5,168	\$5,168
5.	Interest Expense	\$0	\$0
6.	Taxable Income for State Tax	\$54,454	
7.	State Tax	\$4,814	
8.	Taxable Income for FIT		\$49,640
9.	Federal Income Tax		\$7,446
10.	Total Income Tax		\$12,260

California Corporate Franchise Rate 8.84%

Federal Income Tax Rate 15%

(END OF APPENDIX D)